4

Basic Challenges of Organizational Design

Organizational Theory, Design, and Change

Seventh Edition

Gareth R. Jones

ALWAYS LEARNING

PEARSON

Learning Objectives

- Describe the four basic organizational design challenges confronting managers and consultants
- Discuss the way in which these challenges must be addressed simultaneously if a high-performing organizational structure is to be created

Learning Objectives

- Distinguish among the design choices that underlie the creation of either a mechanistic or an organic structure
- Recognize how to use contingency theory to design a structure that fits an organization's environment

Differentiation

- The process by which an organization allocates people and resources to organizational tasks

- Establishes the task and authority relationships that allow the organization to achieve its goals

- Division of labor: The process of establishing and controlling the degree of specialization in the organization

Differentiation (cont.)

- In a simple organization, differentiation is low because the division of labor is low
  - One person or a few people perform all organizational tasks
- In a complex organization, differentiation is high because the division of labor is high

Figure 4.1 – Design Challenge

A. Bob and Amanda, the owners, cook and wait tables as needed. They employ one additional server.
(3 individuals in the organization)
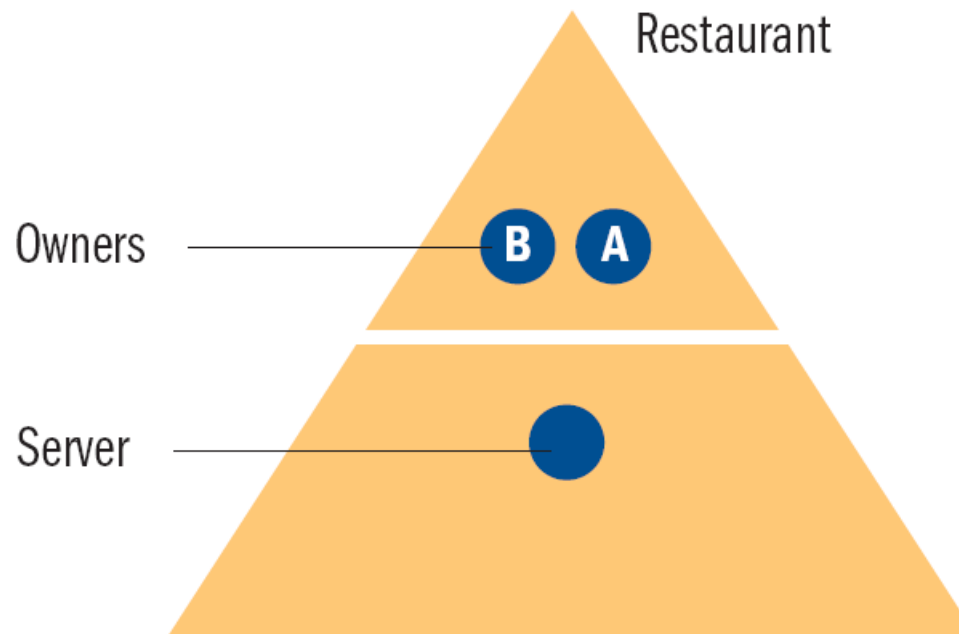

Restaurant

Owners — B A

Server

Figure 4.1 – Design Challenge (cont.)

B. Bob and Amanda work in the kitchen full time. They hire servers, bussers, and kitchen staff.
(22 individuals in the organization)

Restaurant

Owners — B A
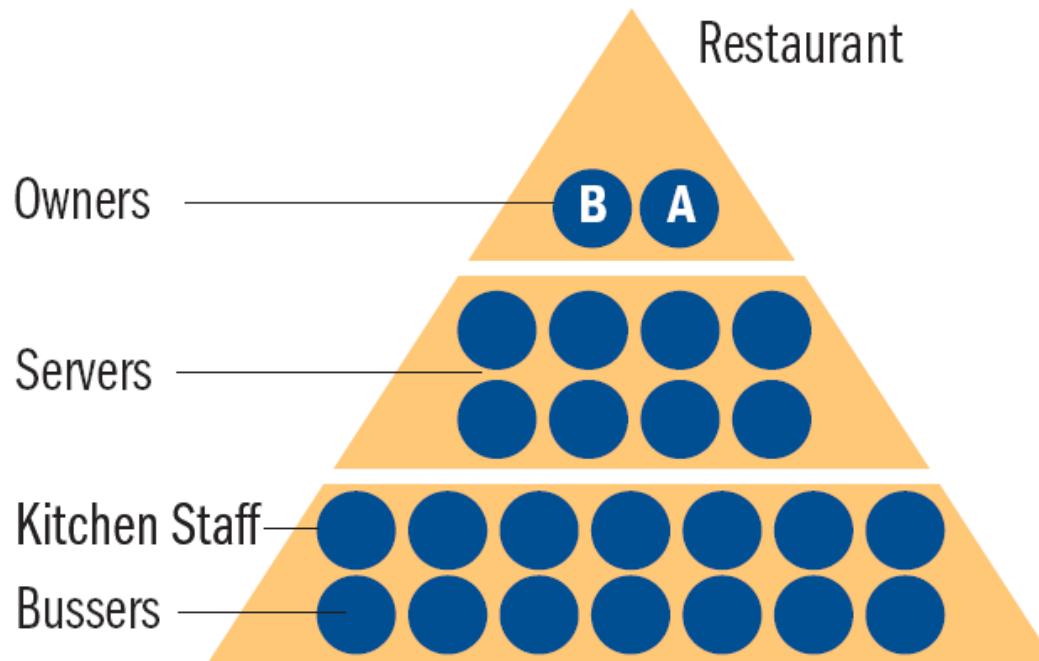
Servers

Kitchen Staff

Bussers

Figure 4.1: Design Challenge (cont.)

C. Unable to manage both the kitchen and the dining room, they divide tasks into two functions, kitchen and dining room, and specialize. Bob runs the kitchen, and Amanda runs the dining room. They also add more staff. (29 individuals in the organization)
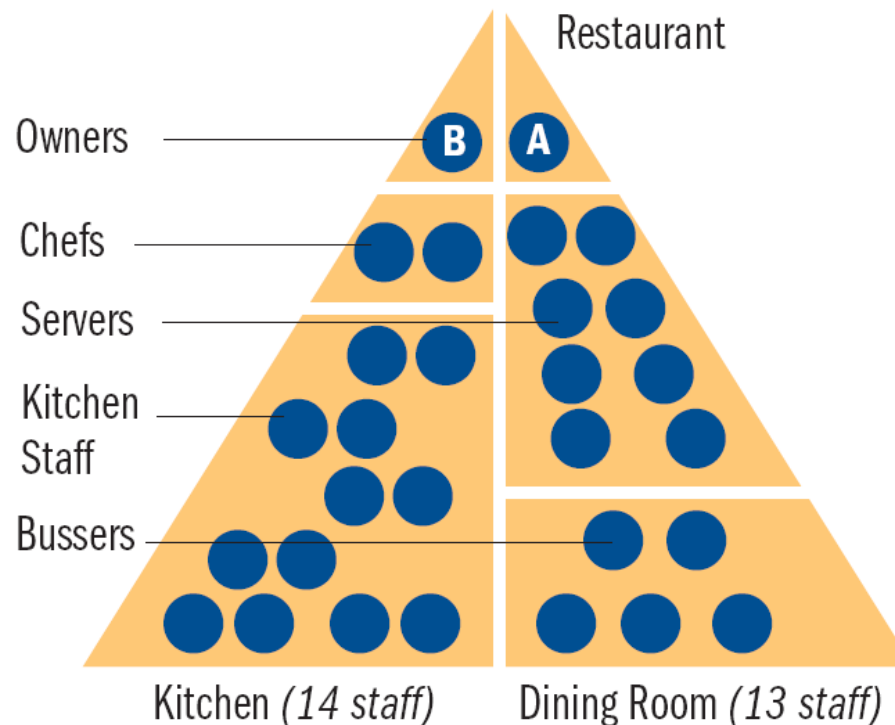
Restaurant

Owners — B A

Chefs

Servers

Kitchen Staff

Bussers

Kitchen (14 staff)   Dining Room (13 staff)

Figure 4.1 – Design Challenge (cont.)

D. The business continues to prosper. Bob and Amanda create new tasks and functions and hire people to manage the functions. (52 individuals in the organization)
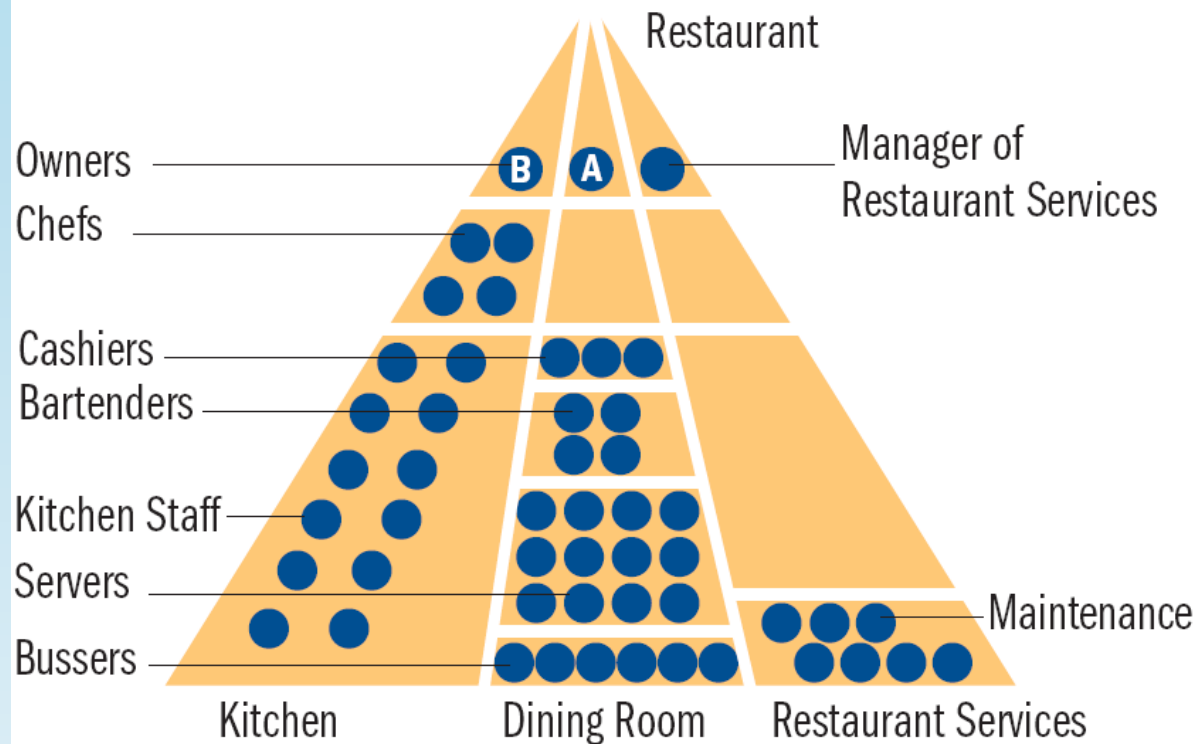
Restaurant

Owners — B A — Manager of Restaurant Services

Chefs

Cashiers

Bartenders

Kitchen Staff

Servers

Bussers

Maintenance

Kitchen   Dining Room   Restaurant Services

Figure 4.1 – Design Challenge (cont.)

E. The Richardses see new opportunities to apply their core competences in new restaurant ventures. They open new restaurants, put support functions like purchasing and marketing under their direct control, and hire shift managers to manage the kitchen and dining room in each restaurant. (150 individuals in the organization)

Owners
Bob and Amanda Richards

Central Support Functions
• Purchasing   • Marketing   • Accounting

Shift Managers
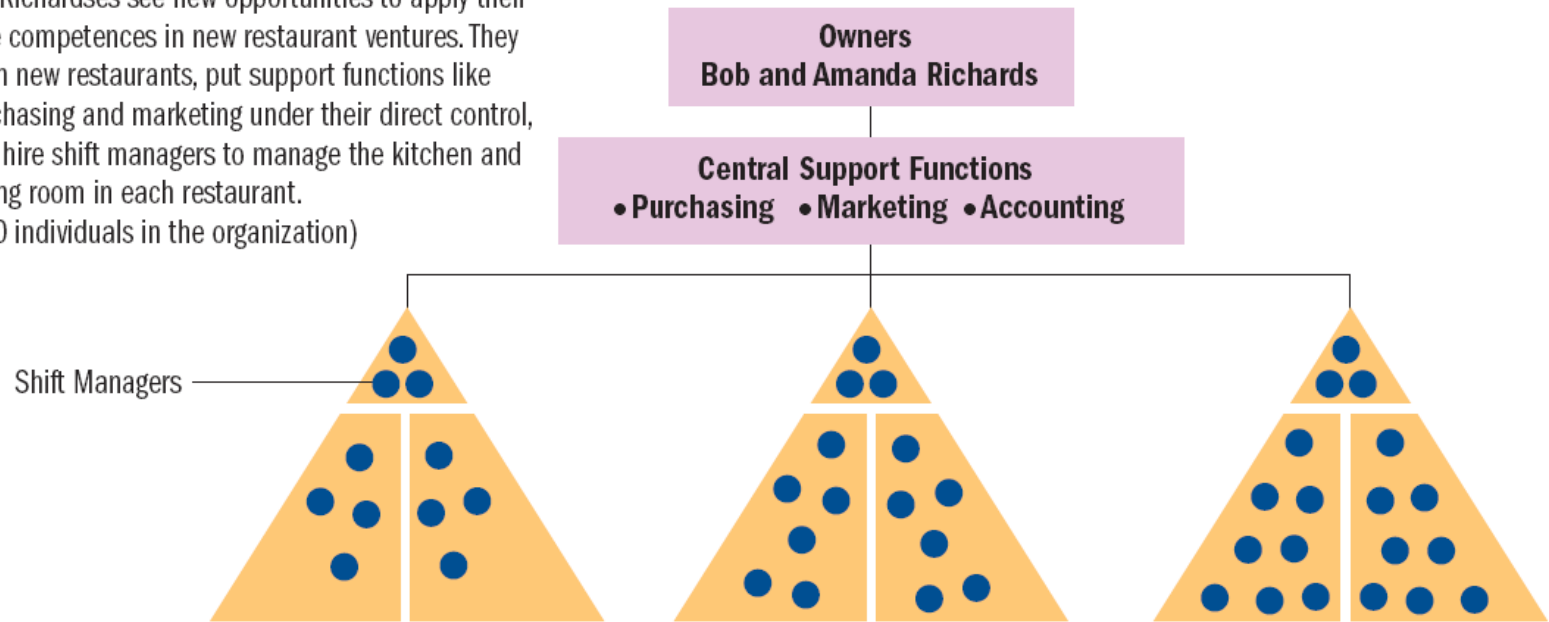
Organizational Roles

- Set of task–related behaviors required of a person by his or her position in an organization
  - As the division of labor increases, managers specialize in some roles and hire people to specialize in others
  - Specialization allows people to develop their individual abilities and knowledge within their specific role

Organizational Roles (cont.)

- Organizational structure is based on a system of interlocking roles
  - The relationship of one role to another is defined by task-related behaviors

Organizational Roles (cont.)

- Authority: The power to hold people accountable for their actions and to make decisions concerning the use of organizational resources

- Control: The ability to coordinate and motivate people to work in the organization's interests

Figure 4.2 – Building Blocks of Differentiation
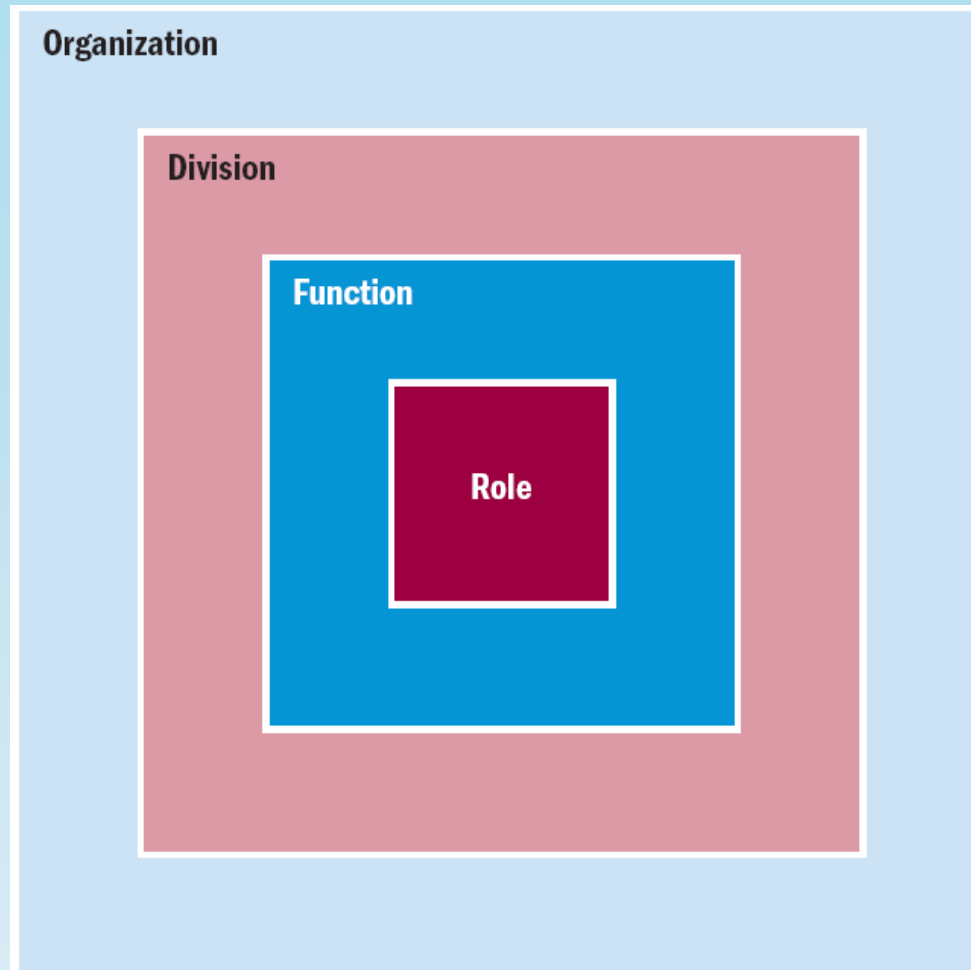
Subunits: Functions and Divisions

- Function: A subunit composed of a group of people, working together, who possess similar skills or use the same kind of knowledge, tools, or techniques to perform their jobs
- Division: A subunit that consists of a collection of functions or departments that share responsibility for producing a particular good or service

Subunits: Functions and Divisions (cont.)

- Organizational complexity: The number of different functions and divisions possessed by an organization
  - Degree of differentiation

Subunits: Functions and Divisions (cont.)

Support functions	• Facilitate an organization's control of its relations with its environment and its stakeholders
Production functions	• Manage and improve the efficiency of an organization's conversion processes so that more value is created
Maintenance functions	• Enable an organization to keep its departments in operation
Adaptive functions	• Allow an organization to adjust to changes in the environment
Managerial functions	• Facilitate the control and coordination of activities within and among departments

Vertical and Horizontal Differentiation

- Hierarchy: A classification of people according to their relative authority and rank

- Vertical differentiation: The way an organization designs its hierarchy of authority and creates reporting relationships to link organizational roles and subunits

Vertical and Horizontal Differentiation (cont.)

- Horizontal differentiation: The way an organization groups organizational tasks into roles and roles into subunits (functions and divisions)

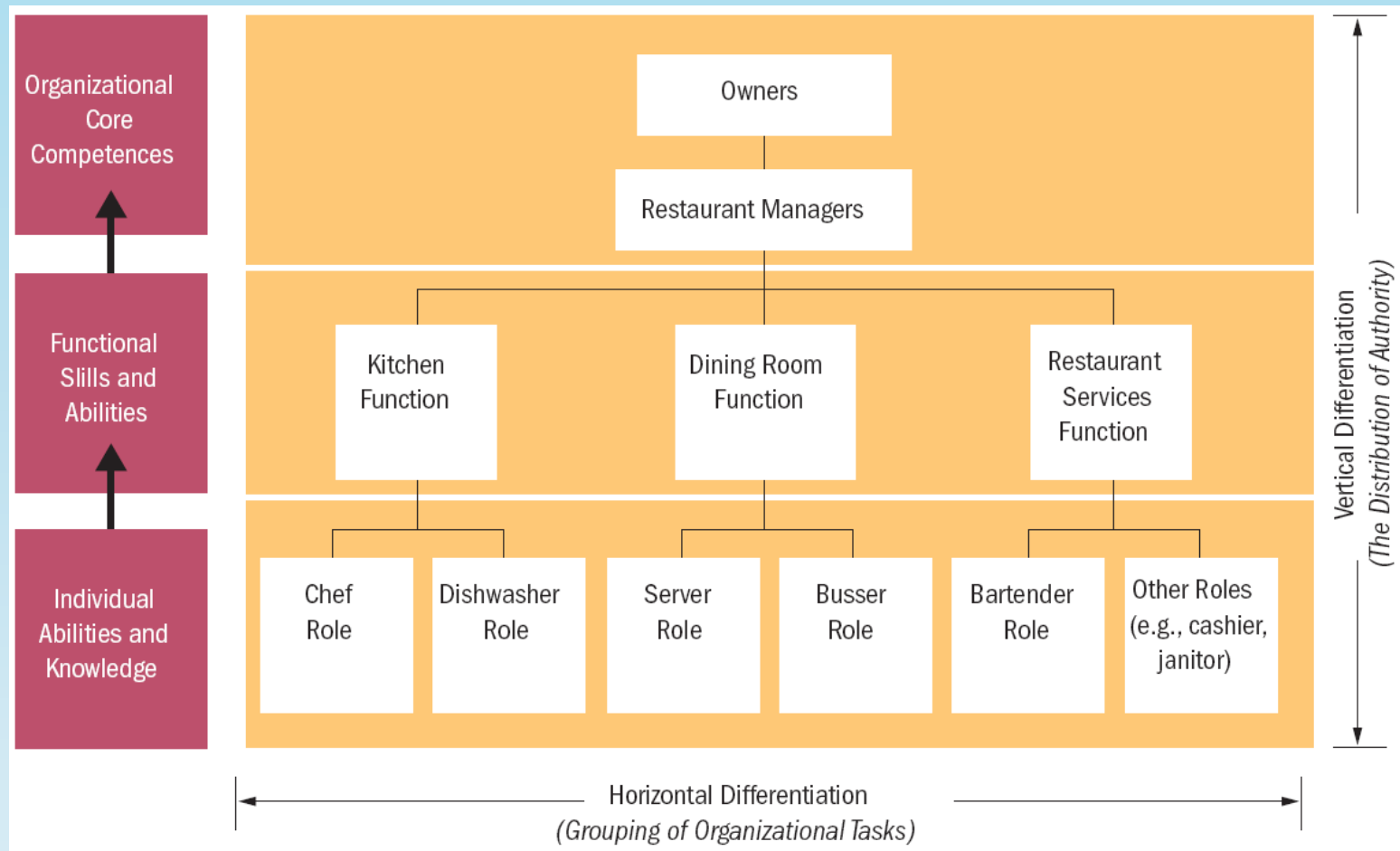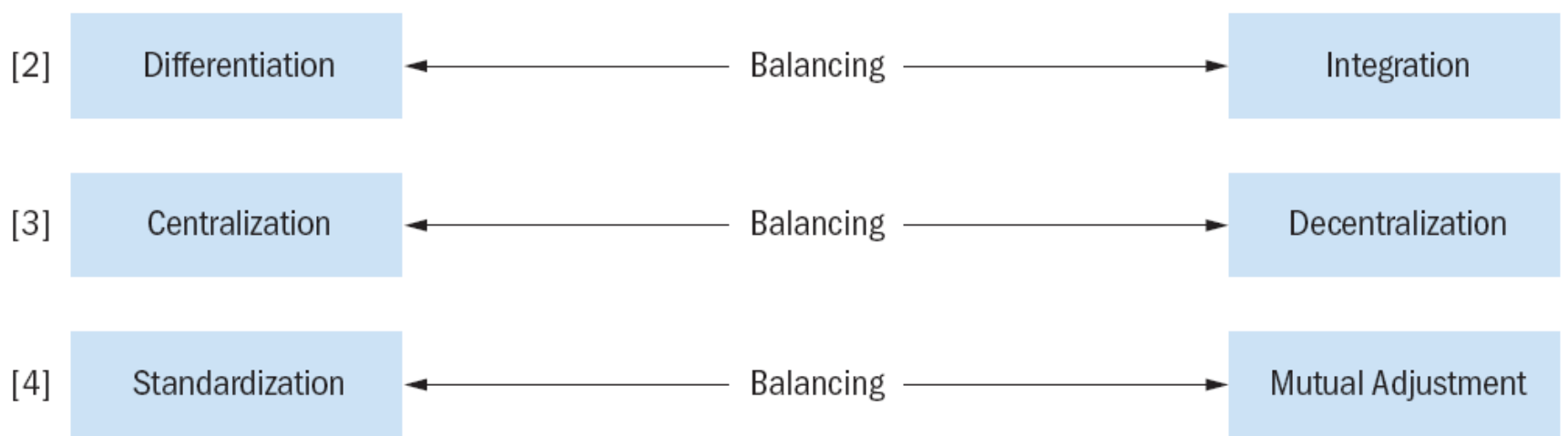# Figure 4.3 – Organizational Chart of the B.A.R. and Grille

Organizational Core Competences

Functional Slills and Abilities

Individual Abilities and Knowledge

Owners

Restaurant Managers

Kitchen Function

Dining Room Function

Restaurant Services Function

Chef Role

Dishwasher Role

Server Role

Busser Role

Bartender Role

Other Roles (e.g., cashier, janitor)

Vertical Differentiation (The Distribution of Authority)

Horizontal Differentiation (Grouping of Organizational Tasks)

Figure 4.4 – Organizational Design Challenges

[2]	Differentiation	Balancing	Integration
[3]	Centralization	Balancing	Decentralization
[4]	Standardization	Balancing	Mutual Adjustment

Balancing Differentiation and Integration

- Horizontal differentiation is supposed to enable people to specialize and become more productive
  - Specialization limits communication between subunits and prevents them from learning from one another
  - People develop subunit orientation

Integration

- The process of coordinating various tasks, functions, and divisions so that they work together and not at cross-purposes

Types of Integration Mechanisms

- Hierarchy of authority – Dictates "who reports to whom"
- Direct contact – Managers meet face to face to coordinate activities
  - Problematic that a manager in one function has no authority over a manager in another
- Liaison roles: A specific manager is given responsibility for coordinating with managers from other subunits on behalf of their subunits

Types of Integration Mechanisms (cont.)

- Task force: A temporary committee set up to handle a specific problem
  - Task force members responsible for taking coordinating solutions back to their respective functions for further input and approval
- Teams – A permanent task force used to deal with ongoing strategic or administrative issues

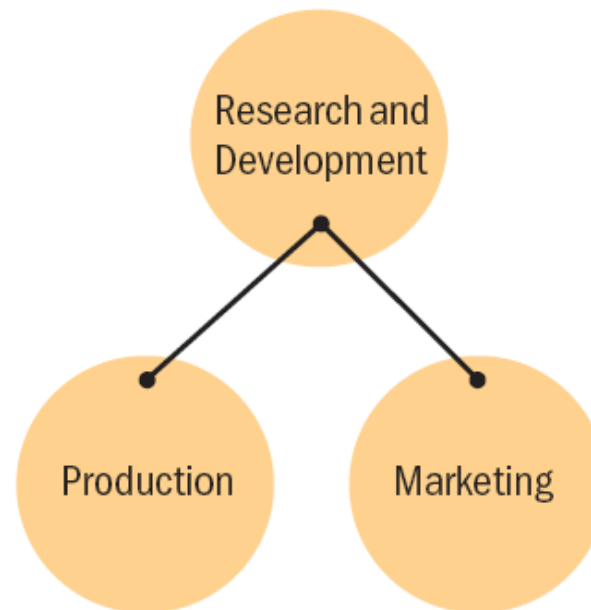# Types of Integration Mechanisms (cont.)

- Integrating role: A full-time position established specifically to improve communication between divisions
  - Focused on company-wide integration
- Integrating department – A new department intended to coordinate the activities of functions or divisions
  - Created when many employees enact integrating roles

Table 4.1 – Types and Examples of Integrating Mechanisms

| Integration Mechanism (In Order of Increasing Complexity)	Description	Example (e.g., in Johnson & Johnson)
Hierarchy of authority	A ranking of employees integrates by specifying who reports to whom.	Salesperson reports to Diaper Division sales manager.
Direct contact	Managers meet face to face to coordinate activities.	Diaper Division sales and manufacturing managers meet to discuss scheduling.
Liaison role	A specific manager is given responsibility for coordinating with managers from other subunits on behalf of his or her subunit.	A person from each of J&J's production, marketing, and research and development departments is given responsibility for coordinating with the other departments.
Task force	Managers meet in temporary committees to coordinate cross-functional activities.	A committee is formed to find new ways to recycle diapers.
Team	Managers meet regularly in permanent committees to coordinate activities.	A permanent J&J committee is established to promote new-product development in the Diaper Division.
Integrating role	A new role is established to coordinate the activities of two or more functions or divisions.	One manager takes responsibility for coordinating Diaper and Baby Soap divisions to enhance their marketing activities.
Integrating department	A new department is created to coordinate the activities of functions or divisions.	A team of managers is created to take responsibility for coordinating J&J's centralization program to allow divisions to share skills and resources.

Figure 4.5 – Integrating Mechanisms

A. Liaison Roles

Research and Development

Production

Marketing

- Indicates managers with responsibility for integration between subunits.

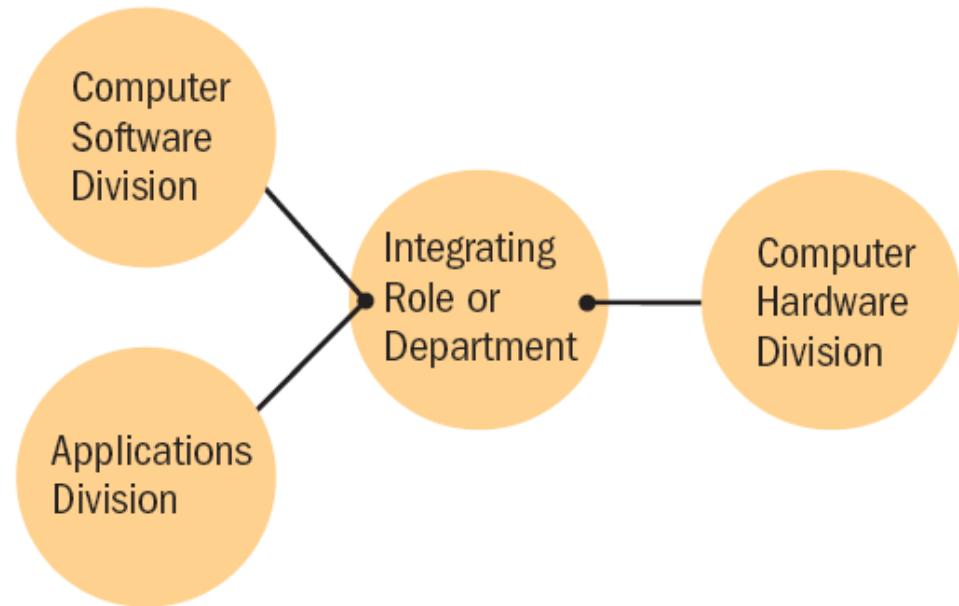# Figure 4.5 – Integrating Mechanisms (cont.)

B. Task Force or Team
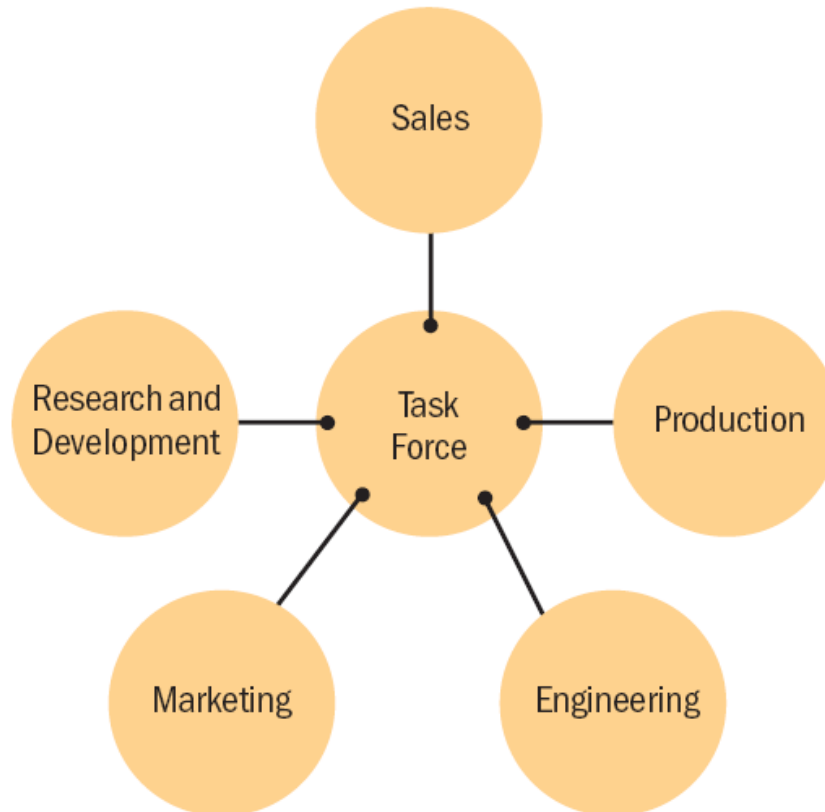
- Indicates managers with responsibility for integration between subunits.

Figure 4.5 – Integrating Mechanisms (cont.)

C. Integrating Role or Department

- Indicates managers with responsibility for integration between subunits.

Differentiation versus Integration

- Managers facing the challenge of deciding how and how much to differentiate and integrate must:
  - Carefully guide the process of differentiation
  - Carefully integrate the organization by choosing appropriate integrating mechanisms

Balancing Centralization and Decentralization

- Establishing a hierarchy of authority is supposed to improve the way an organization functions because people can be held accountable for their actions

- As responsibility and risk taking decline so does organizational performance, because its members do not take advantage of new opportunities for using its core competences

Centralization versus Decentralization of Authority

- Centralized organization: Organizational setup in which the authority to make important decisions is retained by managers at the top of the hierarchy

- Decentralized organization: An organizational setup in which the authority to make important decisions about organizational resources and to initiate new projects is delegated to managers at all levels in the hierarchy

Centralization versus Decentralization of Authority (cont.)

- Ideal balance entails:
  - Enabling middle and lower managers who are at the scene of the action to make important decisions
  - Allowing top managers to focus on long-term strategy making

Balancing Standardization and Mutual Adjustment

- Standardization: Conformity to specific models or examples that are considered proper in a given situation
  - Defined by rules and norms
- Mutual adjustment: The compromise that emerges when decision making and coordination are evolutionary processes and people use their judgment rather than standardized rules to address a problem

Formalization: Written Rules

- Formalization: The use of written rules and procedures to standardize operations
  - Rules: Formal, written statement that specify the appropriate means for reaching desired goals
  - Norms: Standards or styles of behavior that are considered acceptable or typical for a group of people
  - Socialization: Organizational members learn the norms of an organization and internalize these unwritten rules of conduct

Standardization versus Mutual Adjustment

- Challenge facing managers is:
  - To find a way of using rules and norms to standardize behavior
  - To allow for mutual adjustment to give managers opportunity to discover new and better ways to achieve goals

Figure 4.6 – How the Design Challenges Result in Mechanistic and Organic Structures

Mechanistic structures result when an organization makes these choices.

- **Individual Specialization**
  Employees work separately and specialize in one clearly defined task.

- **Simple Integrating Mechanisms**
  Hierarchy of authority is clearly defined and is the major integrating mechanism.

- **Centralization**
  Authority to control tasks is kept at the top of the organization. Most communication is vertical.

- **Standardization**
  Extensive use is made of rules and SOPs to coordinate tasks, and work process is predictable.

Organic structures result when an organization makes these choices.

- **Joint Specialization**
  Employees work together and coordinate their actions to find the best way of performing a task.

- **Complex Integrating Mechanisms**
  Task forces and teams are the major integrating mechanisms.

- **Decentralization**
  Authority to control tasks is delegated to people at all levels in the organization. Most communication is lateral.

- **Mutual Adjustment**
  Extensive use is made of face-to-face contact to coordinate tasks, and work process is relatively unpredictable.

Figure 4.7 – Task and Role Relationships

A. Individual Specialization in a Mechanistic Structure. A person in a role specializes in a specific task or set of tasks.
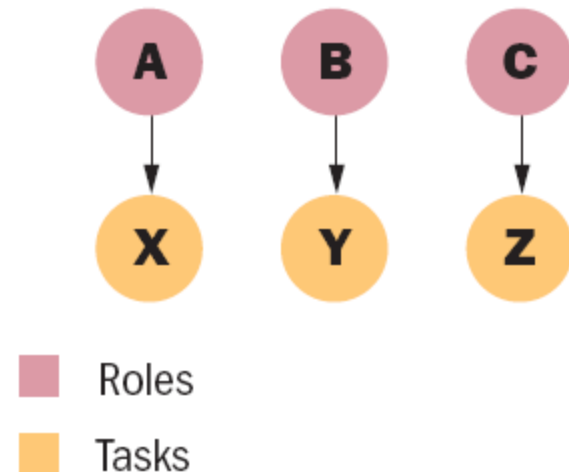
B. Joint Specialization in an Organic Structure. A person in a role is assigned to a specific task or set of tasks. However, the person is able to learn new tasks and develop new skills and capabilities.

Roles

Tasks
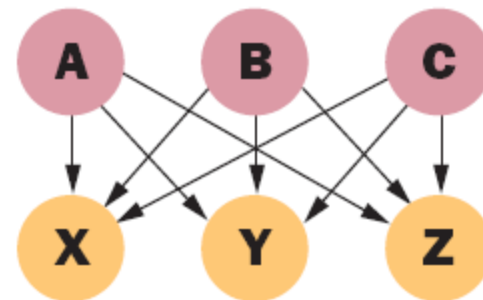
Contingency Approach to Organizational Design

- A management approach in which the design of an organization's structure is tailored to the sources of uncertainty facing an organization
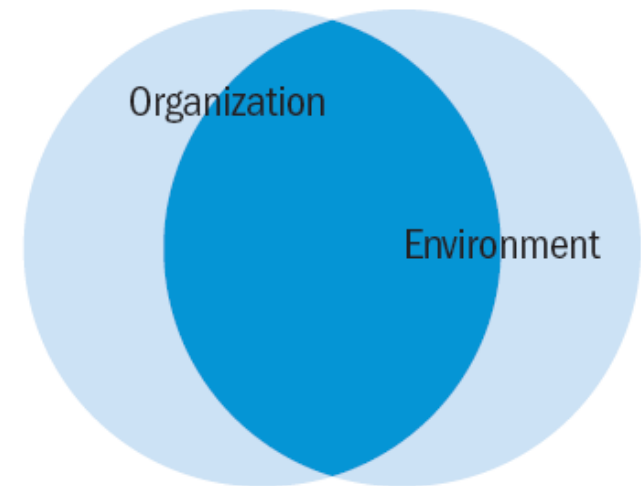- Organization should design its structure to fit its environment

Figure 4.8 – Fit Between the Organization and Its Environment

A poor fit leads to failure; a close fit leads to success.

Poor Fit

Organization   Environment

Close Fit

Organization
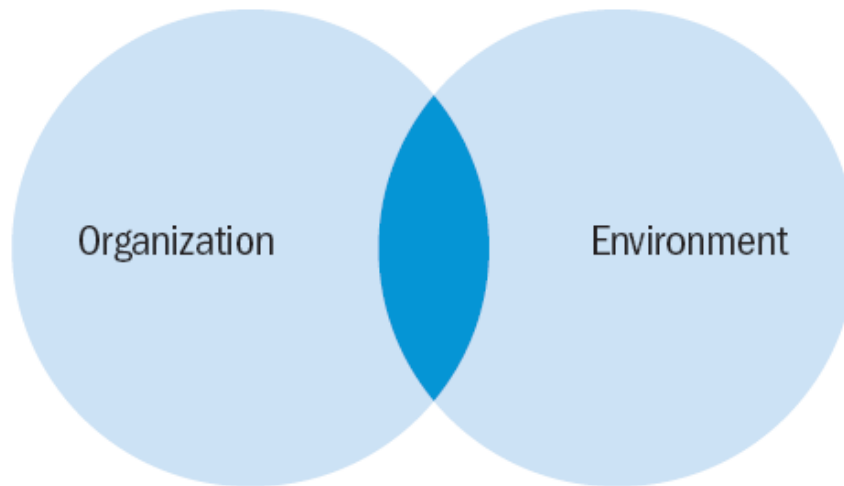
Environment

Degree of fit

Lawrence & Lorsch on Differentiation, Integration, and the Environment

- Investigated how companies in different industries differentiate and integrate their structures to fit the environment
  - Three industries that experienced different levels of uncertainty:
    - The plastics industry
    - The food-processing industry
    - The container or can-manufacturing industry

Table 4.2 – The Effect of Uncertainty on Differentiation and Integration in Three Industries

	Degree of Uncertainty		
Variable	Plastics Industry	Food-Processing Industry	Container Industry
Environmental Variable			
Uncertainty (complexity dynamism, richness)	High	Moderate	Low
Structural Variables			
Departmental differentiation	High	Moderate	Low
Cross-functional integration	High	Moderate	Low

Findings: Lawrence and Lorsch

- When environment is perceived as very complex and unstable:
  - The attitudes and orientation of each department diverged significantly
- When environment is perceived as unstable and uncertain:
  - Organizations are more effective if they are less formalized, more decentralized, and more reliant on mutual adjustment

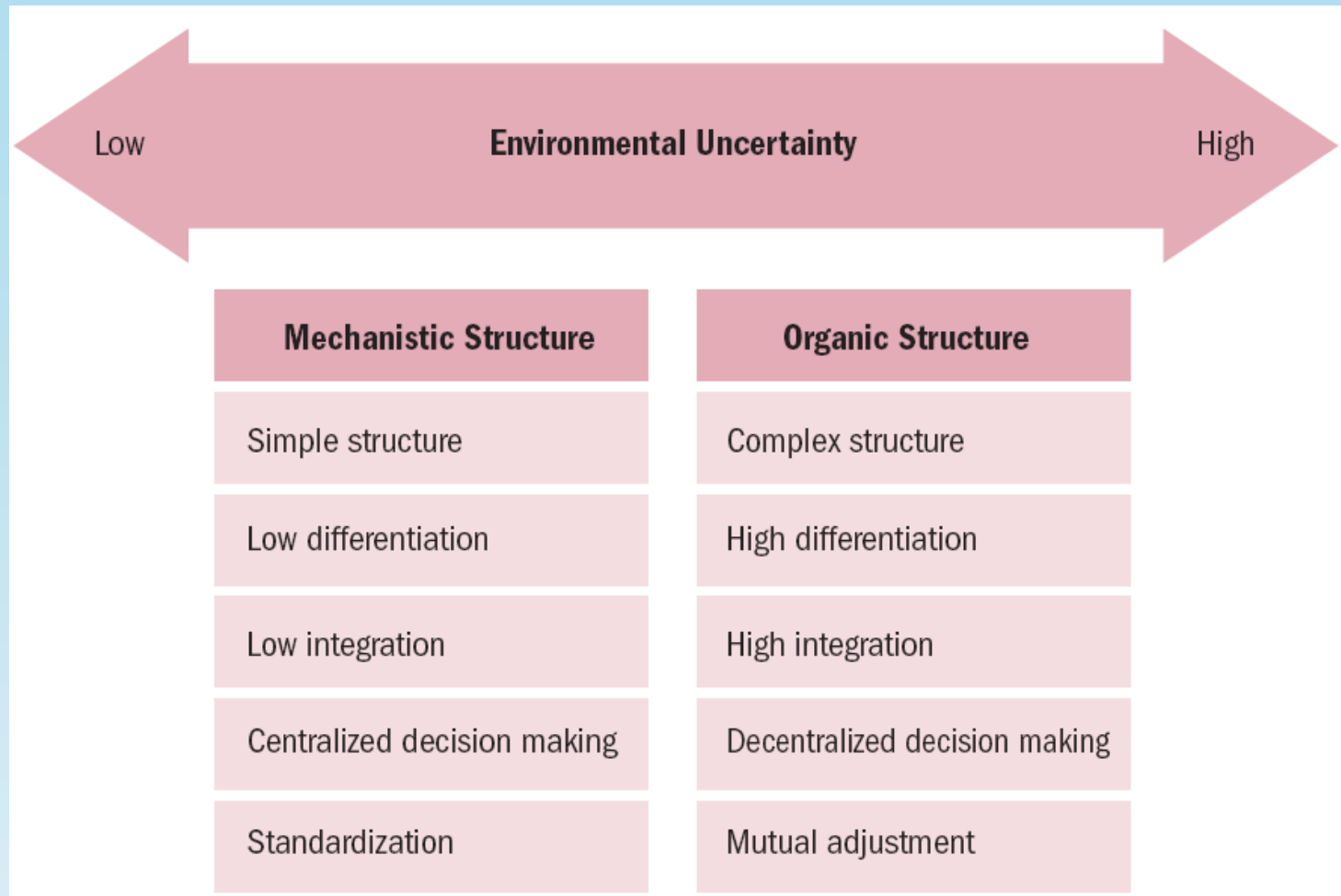# Figure 4.9 – Functional Differentiation and Environmental Demands

A functional structure emerges in part to deal with the complexity of demands from the environment.

Technology	Suppliers and distributors	Consumer interest groups
Research and development	Materials management	Public relations

Specific environment

The Organization

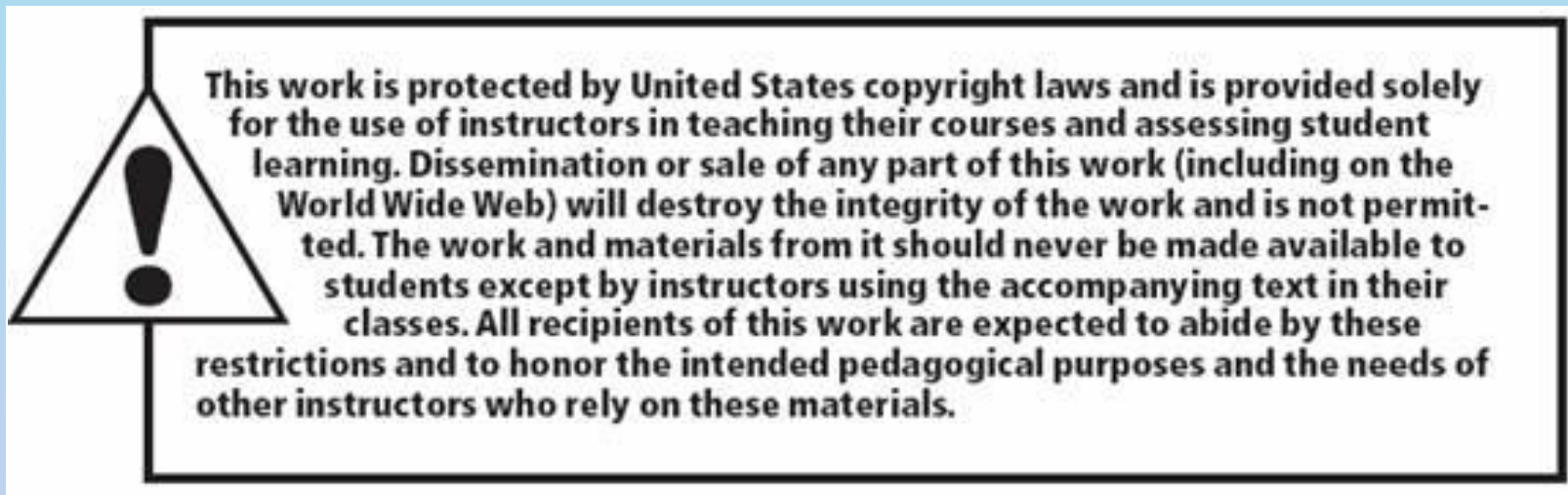| Sales and marketing	Legal	Human resources and industrial relations
Customers and competitors	Government	Unions

Burns and Stalker

- Organizations need different kinds of structure to control their activities based on the environment
  - Organic structures are more effective when the environment is unstable and changing
  - Mechanistic structures are more effective in stable environments

Figure 4.10 – The Relationship Between Environmental Uncertainty and Organizational Structure

Environmental Uncertainty   Low ←→ High

Mechanistic Structure	Organic Structure
Simple structure	Complex structure
Low differentiation	High differentiation
Low integration	High integration
Centralized decision making	Decentralized decision making
Standardization	Mutual adjustment